

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6807

BILL NUMBER: SB 336

NOTE PREPARED: Dec 31, 2012

BILL AMENDED:

SUBJECT: Taxation of Civil Service Annuities.

FIRST AUTHOR: Sen. Kruse

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State and Local

Summary of Legislation: This bill increases the maximum state income tax deduction for federal civil service annuity income from \$2,000 to \$16,000.

Effective Date: January 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes in this deduction. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - This bill increases the allowable deduction for federal civil service annuity pay from \$2,000 to \$16,000 beginning in tax year 2014. The estimated revenue loss from changing the deduction could be about \$5.2 M. Since the change goes into effect in tax year 2014, the revenue loss would likely begin in FY 2015. The revenue loss could remain relatively flat or grow by as much as 2.9% annually thereafter.

Background Information - Under current statute, taxpayers may deduct up to \$2,000 in civil service annuity income. The deduction equals the difference between \$2,000 and the total amount of Social Security or railroad retirement benefits received by the taxpayer. In 2010, 4,546 taxpayers deducted approximately \$7.9 M in civil service annuity pay from their adjusted gross income (AGI). This resulted in a revenue loss of about \$269,000. Based on the current deduction limits and recent annual growth in the deduction, the revenue loss for FY 2015 is estimated to range from \$269,000 to \$295,000.

Data from the U.S. Office of Personnel Management indicates that there are about 27,000 federal retirees in Indiana. The federal retirees received an estimated \$746 M in annuity payments during 2012. The average payment to a federal retiree was about \$27,500. The total payments to retirees in Indiana increased, on average, 4% over the past 10 years.

The estimate relating to civil service annuitants assumes those currently claiming the \$2,000 deduction (4,546 taxpayers) will be able to claim the additional \$14,000 deduction. It also assumes that an additional 16,600 civil service annuitants will be able to claim part or all of the additional \$14,000 deduction.

Explanation of Local Revenues: The change to this tax deduction will likely decrease taxable income, so counties imposing local option income taxes (LOIT) could potentially experience a decrease in revenue. Using the median current LOIT rate of 1.45%, LOIT collections on a statewide basis could potentially be reduced by an estimated \$2.2 M annually beginning in FY 2015.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U. S. Social Security Administration, *Social Security Online - Beneficiary Databases*, <http://www.ssa.gov/OACT/ProgData/beniesQuery.html>; LSA Income Tax Databases, 1996-2010; Data on Federal Civil Service Annuitants in Indiana, U.S. Office of Personnel Management (OPM); FEDSCOPE: OPM Personnel Reporting Cube.

Fiscal Analyst: Heath Holloway, 317-232-9867.